GLOSSARY

accountant professional who maintains, inspects, or interprets financial accounts. The accountant prepares the various reporting and financial statements required for the business.

accounting cycle process of recording the accounting events of a company. The cycle begins when a transaction occurs and ends with its inclusion in the financial statements. The eight steps of the accounting cycle are: (1) journalize the transaction; (2) post entries; (3) prepare the trial balance; (4) prepare the worksheet; (5) prepare the adjusted trial balance; (6) prepare the financial statements; (7) prepare the closing entries; and (8) calculate the post-closing trial balance. See Figure 3.1.

accounting equation an equation based on the balance sheet accounts (assets, liabilities, and owner's equity) in which the left-hand side of the balance sheet must equal the right-hand side (debits = credits), as follows:

Assets = Liabilities + Owner's Equity

accounting period any monthly, quarterly, or annual period that marks the beginning and end of financial reporting.

accounting standards a set of principles that govern the reporting of financial information in a consistent, ethical, and accurate manner. Accounting standards vary by jurisdiction, but in an increasingly global economy, they are becoming more and more uniform in their application. In Canada, accounting standards include generally accepted accounting principles (GAAP); International Financial Reporting Standards (IFRS); accounting standards for private enterprises (ASPE); accounting standards for public sector entities (PSAS); and accounting standards for not-for-profits (NFPO).

accounting standards for private enterprises (ASPE) *See* **accounting standards**.

accrual basis of accounting the principle that revenue is recorded when it is earned regardless of whether or not payment has been received, and expenses are recorded when incurred. This is the approach used by paralegals as required under the *Income Tax Act*; compare *cash basis of accounting*.

accrued interest expense interest expense on a loan or other debt that has not yet been paid.

accrued interest revenue interest revenue earned because of an outstanding debt owed to the business owner by way of an accounts receivable.

accrued revenues revenues that are earned in a period but not yet billed or paid.

accrued salaries expense salary expenses that occur after the pay period end but before the end of the reporting period.

accumulated depreciation the total amount that has been written off as an expense against a particular asset over time. Depreciation is calculated in the contra-asset account.

adjusted trial balance the balance that shows the updated income statement and balance sheet entries on the worksheet.

adjusting entries updates to accounts made as a result of changes to the account balance from the last reporting period. For example, when payment is made on accrued expense or revenue accounts, an adjustment is made to reflect the change to the balance sheet account, the income statement account, or both. However, the cash or bank account would not be adjusted; instead, the appropriate account would be adjusted on the opposite balance of that account. Typical adjustments are prepaid accounts and depreciation.

adjustment a change made to the journal entries and general ledger at the end of an accounting period after the initial trial balance is prepared. Often, these adjustments have been accruing over the accounting period because it is more efficient to recognize the change at the end of the period.

amortization the calculation of the decline in value of an asset from its original value to its residual or remaining value.

assets all the cash, property, and other valuable items that a business or a person owns or is entitled to.

bad debt money owed to a company that has not been successfully collected. Also known as a write-off because it is "written off" as a loss.

balance sheet a financial statement showing the assets, liabilities, and capital of a business at a particular date.

balance sheet account one of two types of general ledger accounts. (Income statement accounts are the other type.) Balance sheet accounts are used to sort and store transactions involving assets, liabilities, and owner's equity.

barter transaction an exchange of goods or services that does not involve money. The goods or services received could be considered proceeds from a business operation and must be included in income. Barter transactions may also have GST/HST implications.

billable rate the rate at which a professional charges a client; for paralegals, this is typically based on the amount of time spent working on a file at an hourly rate (e.g., $80/h). The time billed must be time spent working on the file to move the matter forward, providing legal advice, researching, drafting, and conducting meetings with clients and third parties (including telephone calls). If the hourly billable rate changes during the retainer, the client must be notified or a new retainer agreement should be negotiated.

billable work work performed on a file that will be billed to a client, such as court attendances, legal document preparation, correspondence, and telephone calls.

book value the historical cost of an asset minus accumulated depreciation.

bookkeeper person who records the day-to-day transactions of the accounting process. A bookkeeper is not an accountant, but an accountant may perform some of the tasks associated with bookkeeping. Having a bookkeeper enter and track data is typically more cost-effective than having an accountant do so.

bookkeeping the system and tools used to analyze and record the day-to-day and cyclical financial transactions specific to a business.

business expenses costs that are considered reasonable for a particular type of business and that are incurred for the purpose of earning income; also known as operating expenses. Business expenses can be deducted for tax purposes. Non-business-related expenses, which are either personal in nature or not related to earning business income, are not tax-deductible.

business number (BN) a number that identifies a business to the government for all business purposes, including remittances of GST/HST, corporate income tax, and payroll.

capital account the investment by the owner in a business. Capital is not always cash; it can be assets that the owner chooses to invest in the company. The capital account includes the owner's beginning investment plus or minus the profits or losses earned by the firm.

capital cost allowance (CCA) the means by which Canadian businesses may claim depreciation expense for calculating taxable income under the *Income Tax Act*.

cash basis of accounting the principle that recognizes revenue only when the revenue is actually received and expenses only when payment has actually been made; compare *accrual basis of accounting*.

cash controls internal systems to protect against the loss, misuse, or fraud of cash, including cash payment and receipt systems. Petty cash is an example of a cash payment and receipt system that has rules and procedures to safeguard against internal abuse.

cash receipts a book of duplicate receipts maintained as proof of financial transactions; a requirement for paralegals in accordance with bylaw 9, part V, section 19(1) of the Law Society of Upper Canada. Cash receipts in this context should not be confused with the cash received and documented on a general receipts journal, which is a special journal.

cash short and over cash short is an income statement account that records shortages and overages in petty cash on hand and petty cash disbursements. When cash is short, debit this account to show the increase in expenses as a result of the shortage. When cash is over, credit this account to show the increase in income as a result of the overage. *Example:*

*20***		*Dr.*	*Cr.*
Jan. 1	Expense Accounts	X	

Jan. 31	Cash Short and Over	X (short)	X (over)
Jan. 31	General Bank Account		X
	To replenish the petty cash fund ($100 limit)		

chart of accounts a customized, detailed chart that creates a unique identification number for each business account, typically used in a firm's operation over the accounting cycle. This helps to reduce the number of entries and posting descriptions. New accounts can be added to the chart, but the chart should be ordered in a logical sequence similar to the balance sheet, the statement of owner's equity, and the income statement.

class assets included in a particular account. For example, the account for office furniture will include desks, chairs, and other types of furniture.

client cost recovery journal journal in which are entered expenses on behalf of clients that are recoverable from them. Such costs are typically recorded as a disbursements recoverable journal entry and are included as disbursements on the client invoice and in the fees book. Also, funds can be transferred from the trust account provided that the expense has been incurred and the client agrees to the expense (by way of the client's written authorization or a written retainer agreement).

client general ledger. *See* **client ledgers**.

client ledgers the records of a firm's ongoing transactions, organized by client matter or file number, in respect of all receipts and disbursements made on behalf of or in regard to the firm's clients. The *client trust ledger* records payments taken by the firm for invoices sent to the client; disbursements paid from the trust account on behalf of the client; and the balance remaining in trust. The *client general ledger* records fees and disbursements received from the client; balance owing; and disbursements paid by the firm on behalf of the client when no trust funds are available. This ledger is especially useful if you need to report to a client the amounts that have been received by the firm as payments and those that remain outstanding in respect of funds that are not held in trust.

client matter the descriptor for each client file, indicating the area of law and the particulars of the subject matter. *Example:* Client—Ann Smith, Matter re Small Claims (Smith ats Brown) File No. 101-0001.

client number identifies the client by assigning a unique number associated with the client's name and contact information. *Example:* Client number 101 (Ann Smith, 123 Avenue Road, Toronto, ON).

client trust ledger. *See* **client ledgers**.

close the books to "zero out" the income, expense, and withdrawal accounts by transferring the net amounts to the capital account and starting these accounts at a $0 balance in the new accounting period. *See* **closing entries**.

closing balance the total balance for each account at the end of an accounting period, which becomes the opening balance for the next period.

closing entries journal entries that record temporary account balances at the end of a reporting period (revenue, expenses, withdrawals, and income summary accounts) and the transfer of such balances to the capital account.

compound entry a situation in which there are more than two entries for each transaction, such as when there are two debit entries and only one credit entry, or vice versa.

conflict of interest an interest, financial or otherwise, that might adversely affect a licensee's judgment or loyalty with regard to a client or prospective client, or that would cause a licensee to prefer a third party's interests over those of a client or prospective client. (See rule 1.02 of the *Paralegal Rules of Conduct* of the Law Society of Upper Canada.)

conflict search a search of a firm's client database or manual list that checks all of the firm's current and former clients, files, and vendors against related or opposing parties and former clients of former firm affiliations to determine whether there are any previous contacts with a potential client or file that could lead to a conflict of interest.

contra-asset account an account linked to a long-term asset account that tracks and records the decrease in value of the asset without affecting its original value. It is called "contra" because although it is shown on the balance sheet as an asset account, and it represents an "opposite" normal balance for an asset account.

credit (Cr.) an account entry that is found on the right side of a financial statement, journal, or ledger.

current assets cash, or assets that will be converted into cash within one year. *Examples:* cash in bank accounts, accounts receivable, prepaid insurance.

DEAD CLIC a memory device for determining which accounts show a normal debit balance and which have a normal credit balance—that is, **D**ebit **E**xpenses **A**ssets **D**rawings; **C**redit **L**iabilities **I**ncome **C**apital.

debit (Dr.) an account entry that is found on the left side of a financial statement, journal, or ledger.

deposit in transit a deposit made by the firm but not reflected on the bank statement by the statement cut-off date. To balance the internal records with the bank statement, this deposit amount (typically an outstanding cheque) would have to be added to the bank balance on the bank reconciliation statement.

depreciation the calculation of the cost or expense of a long-term asset (such as property, plant, equipment, or intangibles) over the course of its useful life, representing the asset's decline in value.

dormant account funds remaining in trust that are unclaimed by a client for more than two years. When this occurs, the paralegal can apply to the Law Society of Upper Canada for permission to transfer such funds to the LSUC. (See section 59.6 of the *Law Society Act* and bylaw 10.)

double-entry bookkeeping an essential component of the accounting system, requiring that there be a check and balance of debits and credits. Every transaction must have at least two entries—a debit entry and a credit entry.

drawee the financial institution on which a cheque is drawn.

drawer the person who writes a cheque.

endorsement the signing or stamping of a cheque by the payee (the person to whom a cheque is made payable), thereby transferring the rights of the cheque to the payee from the payor. See Figure 9.6.

expanded accounting equation an equation that correlates the balance sheet assets with the income statement accounts (income and expenses) and the statement of owner's equity (increases and decreases to the capital account), as follows:

$$\text{Assets} = \text{Liabilities} + \text{Capital} - \text{Withdrawals} + (\text{Income} - \text{Expenses})$$

See Figure 2.3.

expense day-to-day, regularly occurring costs, charges, and items that are consumed or used up; the costs of doing business.

expense account all the expense accounts on the income statement that have a normal debit balance.

expense recovery reimbursement for expenses incurred on behalf of clients in furtherance of their legal matters. Such expenses (e.g., photocopy, printing, faxing, courier, and court filing costs) should be described and disclosed in a retainer agreement. Some expenses are not subject to GST/HST and some have tax already included. Paralegals should be sure to apply HST only where required.

external users stakeholders that are interested in a firm's financial accounting.

fees book the record of a firm's billings for all clients, including fees for legal services, disbursements, and GST/HST.

fees journal *See* **fees book**.

financial statements a point-in-time reporting of the financial position of a business for each accounting period (monthly, quarterly, or annually), including the income statement, the statement of owner's equity, and the balance sheet.

fiscal period the accounting period over which a firm reports its business or professional income.

fiscal year any 12-month period selected by a firm to mark the beginning and the end of its financial reporting and tax reporting year (e.g., January 1 – December 31). For a sole proprietorship or partnership, the fiscal period is based on the calendar year; for a corporation, it may be any 12-month period (that coincides with the cycle of its business operation). The firm usually establishes its fiscal period when it files its first income tax return or when it registers a business account with the Canada Revenue Agency.

fixed or capital assets assets that have a long life. They may be purchased with cash or on credit. *Examples:* land, buildings, equipment, vehicles.

flat rate a charge that is the same in all cases. Paralegals can bill on a flat-fee basis when the time that will be required is easy to estimate (such as traffic court fines and certain routine or easy-to-resolve matters). The flat rate is established at the discretion of the paralegal but should reflect the industry standard in order to be competitive.

general bank account a business bank account used by a firm for general business purposes, including depositing receipts and paying bills.

general disbursements journal a record of payments from the general bank account by the firm to a third party. Such expenses may be incurred by the paralegal for the legal services practice or on behalf of a client, or for any other payment made by the firm to another party.

general journal a record that tracks the day-to-day financial transactions of a firm chronologically, without any special categorization of the accounts.

general ledger a record that posts journal entries by category in the order shown on the chart of accounts. The general ledger provides an ending balance after calculating the debits and credits for each account; this ending balance is used to prepare the trial balance.

general monetary retainer an amount paid to a lawyer by a client to secure the availability of the lawyer for a specific period of time. The legal professional who receives a "general retainer" is not required to account for or to provide services. However, section 8(2)(2) of bylaw 9 must be reviewed with caution in order to ensure that the conditions required by the Law Society of Upper Canada are satisfied.

general receipts journal a record of payments received into a firm's general bank account. These may include amounts received from the paralegal, a third party, or a client.

generally accepted accounting principles (GAAP) the common set of accounting principles and procedures that companies use to compile their financial statements. GAAP is a combination of authoritative standards set by policy boards and the commonly accepted ways of recording and reporting accounting information.

government users government users are interested in tax accounting, and businesses are required to submit income tax returns annually.

gross pay the total amount of salary received before taxes or other deductions (such as health insurance) are deducted from it.

GST/HST a tax that is added to most goods and services purchased in Canada. Each province has its own rate of tax. The HST (harmonized sales tax) is used in provinces where both the federal GST (goods and services tax) and the PST (provincial sales tax) have been combined into a single value-added sales tax. In Ontario, the HST is 13 percent.

historical cost the original price paid for an item.

income the amount received by a firm in the sale of its goods or services. Income is reported for income tax purposes and will also be used to determine the amount of deductions or credits that apply to the business or the individual; income is sometimes referred to as "revenue."

income statement a financial statement showing the revenues and expenses for a particular accounting period; a temporary record that starts at a "zero" balance each new accounting period.

income statement account one of two types of general ledger accounts. (Balance sheet accounts are the other type.) Income statement accounts are used to sort and store transactions involving revenues, expenses, gains, and losses. Debit all credit balances on the income account (i.e., bringing the balance to $0) and credit it to the income summary account.

income summary account a transitional account into which all income statement revenue and expense accounts are transferred at the end of an accounting period. The net amount transferred into the income summary account equals the net profit (a credit balance) or loss (a debit balance) that the business incurred during the period. The income summary is a temporary record that must be closed (i.e., bringing the balance to $0).

income tax a federal program that provides the government with revenue collected from all residents who are required to pay income tax. Income tax revenues are used for various programs and initiatives of the federal government. The Department of Finance sets the prescribed basic income tax rates, which vary progressively with the amount of taxable income. There are rates of tax at both the federal and the provincial levels.

information return a form filed by employers, trusts, and businesses to report to the Canada Revenue Agency about their income, source deductions, credits, and other relevant information. Each form has a number identifying its purpose. *Example:* Employers prepare a T4 slip for each employee, who in turn files it with his or her personal income tax form.

input tax credit (ITC) the amount that GST/HST registrants can recover for GST/HST paid (or payable) or owed on their purchases and expenses related to their business activities.

internal controls internal checks and balances used to create efficiency, to protect and safeguard the assets of the business, and to prevent fraud and theft. Such controls are customized for each business and process but typically follow industry standards and best practices. *Example:* having at least two signatories on any negotiable instrument, such as a cheque.

internal users a company's own stakeholders who are interested in accounting for purposes of making management decisions, such as those related to profitability or expansion.

International Financial Reporting Standards (IFRS) a set of international accounting rules imposed on publicly accountable enterprises—for example, corporations whose shares are listed on a stock exchange, banks, etc.

journal entries a means of tracking and chronologically recording the day-to-day financial transactions of a firm, without any special categorization of the accounts. Journals document the source of the transaction and are called books of original entry. Where there is a need to specify and categorize a journal by account, this is known as a special journal.

Law Foundation of Ontario a non-profit organization, created by statute in 1974, governed by a five-person volunteer board of trustees and supported by a staff team, which funds legal programs and initiatives geared toward improving access to justice. The interest collected from the mixed trust accounts of licensees is used to fund many of these initiatives.

legal accounting software special software designed for general business and trust accounting. It provides automatic calculations, posts automatically to ledgers, and produces financial and other reports.

liabilities all the legal debts and obligations that a firm or a person owes to its creditors or customers.

licensee paralegals and lawyers who are licensed to practise by the Law Society of Upper Canada (LSUC).

limited liability partnership a form of partnership established by professionals who are self-governed (e.g., doctors, lawyers, accountants, dentists). An LLP is not a corporation, but liability can be minimized through professional and other general liability insurance.

loss the situation in which expenses exceed income.

matching principle a basic underlying guideline in accounting that directs a firm to report an expense on its income statement in the same period as the related revenues.

mixed or pooled trust bank account an account that holds funds for the benefit of more than one client and may be disbursed only by the rendering of an account for services or upon the authorization and direction of the client. The funds belong to the client and can be refunded or recovered by the client in the event of termination of the file or services, or where there are unused funds. (See bylaw 9, section 7.)

monetary retainer an advance payment made by a client, held in trust by a lawyer or paralegal for future services. In contrast, where services have already been rendered or billed, or disbursements already incurred on behalf of a client, the payment is not deposited in trust but is instead deposited into the general bank account. (See bylaw 9, sections 7 and 8.) Monetary retainers are sometimes referred to as "unearned revenue" or "prepaid services."

multi-discipline practice (MDP) or affiliation an arrangement among licensed legal professionals and non-licensed professionals who seek to work together through an association or partnership. MDPs are usually considered where the licensee and the non-licensee have overlapping practices or disciplines or where there is the prospect of mutual referrals. An "affiliation" is a more loosely held form of organization and may involve a larger group of professionals seeking to maximize marketing and professional support. (See bylaw 7, part III.)

net income as reported on the income statement, the situation in which income exceeds expenses, which will cause an increase in a company's equity.

net loss as reported on the income statement, the situation in which expenses exceed income, which will cause a decrease in a company's equity.

non-billable work work performed in relation to a file that is not billed to the client, such as a free consultation.

normal balance the debit or credit sides of a financial statement, journal, or ledger where increases are recorded. Some accounts (such as assets) have a normal debit balance, so an entry on the debit side increases the balance in the account. Other accounts (such as liabilities) have a normal credit balance, so an entry on the credit side increases the balance in the account.

normal credit balance. *See* **normal balance**.

normal debit balance. *See* **normal balance**.

NSF cheque a cheque that is cashed by the payee where there are insufficient funds in the payor's account to cover it. An NSF cheque is returned with a service charge. In preparing the bank reconciliation statement, the payor would credit (subtract from) the internal records the amount of the NSF cheque and the amount of the related service charge.

office supplies inventory an asset account that reflects the value of the supplies that the firm has on hand; as office supplies are used up or consumed, this is recognized as an office supplies expense.

opening balance the total balance for each account at the beginning of the accounting period. The total is taken from the ending or closing balance of that account from the last period.

outstanding cheque a cheque issued by the payor that has not been cashed by the payee and therefore appears on the payor's internal records but not on the bank statement. To prepare the bank reconciliation, the payor would credit (subtract from) the bank balance the amount of the outstanding cheque (as if the transaction had been completed and the cheque paid from the payor's bank account).

owner's equity the value of assets remaining after all liabilities have been deducted; this residual value is what is received by the owner or shared by the shareholders or partners. Also called capital.

partnership a firm managed by two or more persons who share in the profit, loss, and risk of the business. At least one partner must be a general partner, whose duty it is to manage the business; the other partners may be passive investors or take a less active role. Liability is unlimited but shared. (See bylaw 7, part I.)

payee a person to whom money, such as a cheque, is paid or is to be paid.

payor a person who pays, especially in the case of a bill or cheque.

payroll deductions source tax deductions, such as income tax deductions, Canada Pension Plan (CPP) contributions, and employment insurance (EI) premiums, that are deducted from an employee's income and sent regularly to the Canada Revenue Agency. Employers also contribute to some deductions and make their own CPP and EI contributions.

permanent accounts balance sheet accounts; called "permanent" because their balances carry over from one fiscal period to the next.

personal deductions income tax deductions that reduce tax for some taxpayers and promote certain activities considered to be beneficial, such as tuition fees and childcare expenses.

petty cash cash on hand for a business to pay for "petty" or small expenditures such as postage, office supplies, parking, and other similar expenses. Petty cash is controlled internally by the establishment of a petty cash fund.

petty cash account an asset account on the balance sheet, established by issuing a cheque to the custodian of the petty cash account. Each payment from the petty cash account is represented by a voucher. (See Figure 9.2.) When the petty cash account is reduced or has a zero balance, the petty cash fund is replenished to bring it back to the petty cash limit originally established, as follows:

*20***		*Dr.*	*Cr.*
Jan. 1	Petty Cash	$100	
	General Bank Account		$100
	To establish (or increase) the petty cash fund ($100 limit)		

*20***		*Dr.*	*Cr.*
Jan. 31	Expense Accounts (Postage, Office Supplies, Parking)	$72.50	
	General Bank Account		$72.50
	To replenish the petty cash fund ($100 limit)		

post, posting the process of transferring information from a journal to a ledger.

post-closing trial balance the listing of the balance sheet accounts (assets, liabilities, and owner's equity) after all adjustment and closing balances have been reduced to zero from the temporary accounts and have been transferred to update the capital account (owner's equity).

post reference (PR) the numerical identifier for each account referenced on a chart of accounts. The PR makes it easy to cross-reference and identify journal entries.

prepaid expenses expenses for a good or service that are paid in advance of the payment due date or before the use or consumption of the good or service. *Examples:* prepaid rent, prepaid insurance.

professional corporation lawyers or licensed paralegals who carry on the practice of law or the provision of legal services through an incorporated entity. (See bylaw 7, part II.)

profit the situation in which income exceeds expenses.

reconciliation the comparison of transactions recorded in a firm's internal records (the general ledger or bank account ledger) against the transactions reported on the bank statement (e.g., deposits, cheques issued, interest, bank charges) and the preparation of a bank reconciliation statement to confirm that the ending balances for the internal records and the bank statement are balanced. If the records are not balanced, the bookkeeper/accountant will need to investigate possible errors either in the firm's internal records or on the bank's part. It is good practice to reconcile both the general bank account ledger, and the trust bank account ledger, against the general bank account and the trust bank account statements.

records documents that must be maintained by businesses and individuals to verify the information that is filed with the Canada Revenue Agency, such as account books, sales and purchase invoices, contracts, bank statements, and cancelled cheques. You must keep records at your business or residence in Canada for at least six years from the end of the last tax year to which the records relate, and the CRA must have access to these records if requested.

residual value the estimated value of the asset at the end of its useful life.

retainer an agreement between a client and a legal services provider for the engagement of legal services, describing the scope of services to be provided, the billing rate, and the billing practices.

revenue recognition principle a basic guideline in the accrual approach to accounting that requires revenues to be shown on the income statement in the period in which they are earned, not in the period when the cash is collected.

separate interest-bearing trust account a bank account that is held for each individual client who requests it, and who has large sums of money that are to be held for an extended period of time. The licensee has a duty to account for the interest on the funds in the separate interest-bearing account; interest accrues to the client. (See paragraph 2(b), "Separate Interest Bearing Trust Account," in *The Bookkeeping Guide for Paralegals* of the Law Society of Upper Canada.)

service charges fees charged by a bank to manage customers' bank accounts. These fees may be regular monthly charges or charges per transaction. Service fees are expenses on the income statement and reduce the cash account.

shareholder's equity the equity account in an incorporated company.

signature card a card signed by anyone opening an account at a financial institution. It is kept on file to confirm the person's identity.

slide an error resulting from incorrect placement of a decimal point in writing numbers.

small supplier a supplier whose annual revenues from taxable supplies (before expenses) from all businesses total $30,000 or less. Once annual revenues exceed $30,000, the business must be registered and must start collecting GST/HST.

sole proprietorship a business managed by a sole owner and operator, in his or her own name or under another, as authorized by a business name licence; liability is unlimited.

special journal a specific journal, used instead of the general journal, to identify specific transactions by special categories. A general journal can be used but may not be helpful or efficient for reporting purposes. Special journals include trust receipts journals, general receipts journals, trust disbursements journals, general disbursements journals, and fees journals.

stakeholders internal and external parties who rely on the information provided by a business in making decisions; these may include employees and customers.

statement of owner's equity a financial statement used to calculate owner's equity in the firm after taking into account any profits or losses of the firm less money withdrawn by the owner; a permanent record that uses the ending balance of the last accounting period as the opening balance of the new period.

straight-line amortization method a calculation of depreciation cost or expense at an equal amount over the life of the asset, so that the allocated monthly, quarterly, or annual costs are of equal value over time. *Example:* An asset with an original value of $3,000, a residual value of $500, and an estimated shelf life of 3 years would have an annual depreciation cost of $833 ($2,500/3 years). See Figure 7.4.

T-account a tool used to show a particular account according to the debits and credits. *Example of a T-account for an asset account:*

Account Name	
Debit	Credit
(+) increase	(–) decrease

tax year the period for which income tax is to be paid, based on either the calendar year or the elected or designated fiscal period.

taxable benefits benefits—such as money, or the value of goods or services—that an employer pays or provides to an employee in addition to salary or wages. *Examples:* employer contributions to a provincial health insurance plan, life insurance premiums, dental and medical benefits.

temporary accounts income, expense, and withdrawal accounts; called "temporary" at year-end because a fresh start is needed each year.

time entry and billing a method of tracking the time spent on billable client matters, whether manually or through the use of a computerized system. For each activity, the time and description are entered. *Best practice:* Enter the actual time (in hours and minutes, 00:00) for appointments, meetings, and telephone calls or matters where a significant amount of time is spent on an activity together with the calculated time in tenths of an hour. This approach avoids client complaints and disagreements about billing. Entering time on a daily basis, or as an activity is completed, is the best way to ensure accuracy.

transposition the accidental reversal of digits in making a journal or ledger entry.

trial balance A list of the closing balances of the general ledger accounts that are arranged according to the chart of account listings and categorized as either debits or credits. If the debit entries equal the credit entries, the trial balance is balanced.

trust bank account a bank account in which a law professional (acting as an authorized custodian) holds money that belongs to clients, not to the firm. Trust funds are used for specific purposes—for example, to pay court filing fees on behalf of a client.

trust bank journal a record of deposits to and withdrawals from a trust bank account, representing money belonging to clients and held in trust until services are rendered. Instead of using a general trust bank journal, a paralegal may wish to set up special journals for reporting purposes, called the trust receipts journal (records receipts into trust) and the trust disbursements journal (records disbursements from trust).

trust bank reconciliation a comparison of the trust bank balance with the trust journal and trust listing balances. To obtain a reconciled balance, take the ending balance of the trust bank statement and subtract the amount of the outstanding cheques, then add any outstanding deposits.

trust comparison a comparison of the reconciled trust bank balance with the client trust listing total. The two amounts should be equal.

trust control accounts accounts that provide the total of the moneys received in trust from all clients and the total of moneys owed to clients. The balance sheet includes the trust bank account (e.g., funds received; an asset account) and trust funds owed (e.g., money owed to clients; a liability account). The totals in the two accounts should be equal.

undepreciated capital cost (UCC) the balance of the capital cost left for further depreciation at any given time. The amount of CCA claimed each year will lower the UCC of the property.

valuable property record a record of any property, other than cash, belonging to clients that is being held in trust or for safekeeping.

withdrawals money taken out of the firm by the owner without regard to the sale of goods or services, thus reducing the equity value in the business. Money taken out of the business does not go back into the business but is used for the personal benefit of the owner. Shareholder withdrawals are known as *dividend payments*.

work in progress (WIP) an account of work that has not been completed or services that have been performed in part but are still in progress and, therefore, not yet included as earned income or revenue. (1) The account WIP Accrued (an asset account) has a debit balance; WIP Professional Fees (an income account) has a credit balance. (2) When a bill is prepared, the journal entry would be: Accounts Receivable (Asset)—Dr.; Fees Earned—Cr. (3) In order to clear WIP Accrued (as a result of preparing an invoice and billing the client) for a particular period and bring it to $0 or to a value corresponding to the amount billed, the journal entry would be a reversing entry: WIP Professional Fees (Income)—Dr.; WIP Accrued (Asset)—Cr.:

Asset Accounts

WIP Accrued

500 (1)	
	500 (3)
Balance 0	

Accounts Receivable

500 (2)	

Income Accounts

Fees Earned

	500 (2)

WIP Professional Fees

	500 (1)
500 (3)	
	Balance 0